

PQR SYSTEMS

PQRS Ltd is a small computer software company, employing 50 people at offices located in a Scottish city. It has been established for over 20 years. The firm occupies a niche market producing and maintaining specialist computer software for the motor trade. Three-quarters of its staff are computer programmers. The others are salespeople, administrators and managers.

As matters currently stand there is heavy competition for the services of IT people. Salaries have risen by 40% over the past five years and there are lucrative opportunities for those programmers who wish to operate on a freelance basis. Competition for good salespeople, cut-throat at the best of times, has recently intensified further.

The tightening of these key labour markets has had serious consequences for PQRS. Staff turnover over the past year has doubled to 45%, with many of the most effective programmers leaving to take up other jobs. A number have joined a local competitor, while two others have taken up highly paid posts in Chicago. A further group have joined larger companies where there are greater prospects for developing management skills. Because a great deal of the firm's work involves servicing software that has already been sold to clients, high turnover has meant that crucial continuity in client-programmer relationships has been lost.

PQRS, as a result of its size and mature product market, has been poorly placed to respond to this trend by increasing salaries. Profit margins are uncomfortably tight and there has thus been relatively little room for manoeuvre on the salary front. Last year the programmers were given a 15% pay rise by way of an incentive to encourage them to stay, but this could be afforded only by moving to smaller premises in a run-down area and by deciding not to replace three of the leavers. Other steps taken to discourage leavers included the launch of legal actions against two former employees for recovery of funds the firm claimed to have invested in their training.

While initially pleased with the salary increase, staff reacted negatively to the office move and to the additional workload. There was also general unease at the news of the legal actions and widespread irritation at the introduction of a new computerised clocking-in system. Moreover, managers quickly discovered that the pay increases were inadequate in such a buoyant labour market. The retention drive was thus unsuccessful and led ultimately to further resignations.

Recent advertisements for new sales staff and programmers, placed in local newspapers, have yielded few responses and no applications from genuinely appointable people. Whereas two years ago headhunters would respond to advertisements of this kind and put forward a string of possible candidates, such is no longer the case.

Until this month, PQRS was a wholly-owned subsidiary of a larger group with interests in a number of fields. The parent company was run by a self-made man, Mr Gary Stephens, who operated a centralised and pretty uncompromising regime. His response when told of the retention problems at PQRS was to say 'if they don't like it they can get out'. Such was the fear of this man throughout his empire that people preferred not to contradict him. The result was falling profits, poor new sales figures and a raft of dissatisfied customers – for all of which local managers were blamed by Mr Stephens.

Three weeks ago PQRS staff were told the news that the company was to be bought out by its deputy managing director, Mr Terry Maclean and his wife. They perceived PQRS to have long-term potential provided its staffing problems could be solved, and managed to persuade their bank that this was the case. A good price was agreed with Gary Stephens and the deal was completed in two days.

Initial reaction among staff was positive. Terry Maclean is a popular and respected figure in the firm, with clear leadership qualities and a reputation for fair dealing. An impromptu party was held



to celebrate the buy-out at which Terry was cheered loudly as he ceremonially switched off the despised clocking-in system and outlined his plans to occupy newer, more spacious offices on a business park close to where many of the staff live.

In recent days, though, people have begun to get concerned. In part, this has resulted from the announcement that there will be no pension scheme following the buy-out, but there are also jitters about possible future redundancies. As a consequence, the Maclean honeymoon is rapidly coming to an end and people are beginning to look out for alternative job opportunities again.

Questions for Discussion

1. What are the main features of the key labour markets in which PQRS competes?
2. What alternative retention strategy would have been more appropriate to follow over the past year?
3. What advice would you now give Terry Maclean as he embarks on a new round of recruitment?

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